

Message Text

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SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

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1. FOLLOWING IS INFORMATION REQUESTED REF A.

2. NARRATIVE ON FOREIGN INVESTMENT CLIMATE IN LAOS:

THE OUTLOOK FOR DIRECT INVESTMENT IN LAOS HAS CHANGED WITH THE POLITICAL CHANGES OF LATE SPRING AND EARLY SUMMER 1975. ALTHOUGH THE LAO CONTINUE TO NEED FOREIGN CAPITAL FOR THEIR DEVELOPMENT PROGRAM, THEY WILL LOOK FOR THIS CAPITAL PRINCIPALLY IN THE FORM OF BILATERAL AID AND LAONS FROM FRIENDLY GOVERNMENTS.

THE CONTINUED EXISTENCE OF THE PRIVATE SECTOR OF THE LAO ECONOMY MAY BE CALLED INTO QUESTION. THE OUTLOOK FOR FOREIGN PRIVATE INVESTMENT, THEN APPEARS AT BEST TO BE HIGHLY UNCERTAIN. A LAO INVESTMENT CODE, PROMULGATED FEBRUARY 17, 1970, PROVIDED TAX BENEFITS

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AND OTHER PROMOTIONAL INCENTIVES FOR FOREIGN INVEST-

MENT. HOWEVER, LAO OFFICIALS CONFIRM THAT THIS CODE WILL BE REVISED ONCE THE NEWLY CONFIGURED GOVERNMENT HAS HAD TIME TO CONSIDER INVESTMENT MATTERS. ANY NEW FOREIGN INVESTMENT WILL BE STRICTLY CONTROLLED.

THE LAO GOVERNMENT'S LIMITED FOREIGN EXCHANGE AVAILABILITIES AND THE PAUCITY OF INDUSTRIAL PRODUCTION IN THE ECONOMY MAKE FOREIGN INVESTMENT OR AID AN IMPERATIVE FOR ANY SECTOR THAT NEEDS MODERN EQUIPMENT OR REQUIRES IMPORTED MATERIALS. PARTICULARLY IN FIELDS SUCH AS MINING AND HYDRO-ELECTRIC POWER, LAOS WILL NEED THE EXPERTISE OF FOREIGN COMPANIES AS WELL AS SUBSTANTIAL CAPITAL. PHASE II OF THE NAM NGUM HYDROELECTRIC PROJECT, WHICH IS FUNDED THROUGH THE ASIAN DEVELOPMENT BANK, WILL INVOLVE A NUMBER OF FOREIGN COMPANIES. IN THE CASE OF THE EXPLOITATION OF POTASH DEPOSITS IN THE VIENTIANE PLAIN, THE LAO CABINET HAS SAID IT PLANS TO APPROACH FOREIGN COUNTRIES AND PRIVATE COMPANIES THAT MIGHT BE INTERESTED.

HOWEVER, THE LAO GOVERNMENT WILL PROBABLY PREFER TO ACCOMPLISH EVEN THE EXPLOITATION OF ITS MINERAL POTENTIAL WITH THE MINIMUM OF PRIVATE INVESTMENT.

BECAUSE OF THE CURRENT POLITICAL AND SECURITY SITUATION AND THE DIFFICULTY OF OBTAINING INVESTMENT GUARANTEES, WESTERN FIRMS HAVE SHOWN LITTLE INTEREST IN INVESTMENT IN LAOS. AS OF JANUARY 1, 1975, LAOS CAME UNDER THE INSURANCE GUARANTEE PROGRAM OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC), BUT NO INVESTMENTS HAVE BEEN APPROVED UNDER THIS PROGRAM, AND NO APPLICATIONS ARE LIKELY IN THE PRESENT STATE OF AFFAIRS. UNCERTAINTY ABOUT THE BANKING SITUATION (LAOS'S FOUR PRIVATE BANKS WERE CLOSED IN SEPTEMBER, 1975, AND HAVE NOT REOPENED) AND ABOUT POSSIBLE CURRENCY RESTRICTIONS AND CURRENCY REFORM ARE FURTHER DISINCENTIVES TO INVESTMENT IN LAOS AT THIS TIME.

RELIABLE STATISTICS ON DIRECT INVESTMENT IN LAOS ARE NOT AVAILABLE. THERE HAS BEEN VIRTUALLY UNCLASSIFIED

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NO U.S. PRIVATE INVESTMENT IN LAOS. SOME PRIVATE JAPANESE, THAI AND FRENCH INVESTMENTS EXIST; NONE OF THESE IS SIZEABLE. THE LAO ARE NOW LOOKING FIRST TO OTHER COMMUNIST COUNTRIES FOR TECHNICAL AND INVESTMENT ASSISTANCE, AND WITH A MARKED PREFERENCE FOR BILATERAL (AS OPPOSED TO MULTILATERAL) GRANTS AND LOANS.

3. STATISTICS ON FOREIGN INVESTMENTS IN LAOS:

AS INDICATED IN THE PRECEDING NARRATIVE, RELIABLE DATA ON DIRECT FOREIGN INVESTMENT IN LAOS ARE NOT AVAILABLE. THE NATIONAL INVESTMENT COMMISSION OF THE MINISTRY OF ECONOMY AND PLAN IN JUNE, 1974, PUBLISHED A LIST OF 23 APPROVED ENTERPRISES IN LAOS, ONLY TWO OF WHICH WERE IDENTIFIED AS HAVING FOREIGN PARTICIPATION (THOUGH OTHERS ARE KNOWN TO HAVE SOME FOREIGN CAPITAL). THESE TWO ENTERPRISES WERE BRASSERIES ET GLACIERES DU LAOS (WITH FRENCH INTEREST), WHICH HAD A CAPITAL STATED BY ITS MANAGEMENT IN 1974 TO BE 670,000,000 KIP (OR \$558,333 AT THE CURRENT OFFICIAL RATE FOR COMMERCIAL TRANSACTIONS OF 1200 KIP TO THE DOLLAR) AND LAO WOOD INDUSTRY (WITH JAPANESE/THAI INTERESTS) WITH A CAPITAL REPORTED BY ITS MANAGEMENT IN 1975 TO BE 300,000,000 KIP (OR \$250,000 AT THE 1200 RATE), 55 PERCENT OF WHICH IS LAO AND 45 PERCENT OF WHICH IS THAI/JAPANESE. JAPANESE INTERESTS ARE MINORITY STOCKHOLDERS IN THE SOCIETE ANONYME DE DEVELOPPEMENT INDUSTRIELLE LAO-JAPONAISE (SILJA) AND IN THE SENG FAH IRON SHEET FACTORY, BUT CAPITALIZATION FIGURES ARE NOT AVAILABLE. THE FRENCH HAVE AN INTEREST IN THE SOCIETE DES MINES DE NONG SUN (TIN MINES).
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